

ANTERO RESOURCES Corp  
Form 10-Q  
April 27, 2016  
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from                      to

Commission file number: 001-36120

ANTERO RESOURCES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

80-0162034  
(IRS Employer Identification No.)

1615 Wynkoop Street  
Denver, Colorado  
(Address of principal executive offices)

80202  
(Zip Code)

(303) 357-7310

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes No

The registrant had 277,408,453 shares of common stock outstanding as of April 25, 2016.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

The information in this report includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements, other than statements of historical fact included in this Quarterly Report on Form 10-Q, regarding our strategy, future operations, financial position, estimated revenues and losses, projected costs, prospects, plans and objectives of management are forward-looking statements. When used, the words “could,” “believe,” “anticipate,” “intend,” “estimate,” “expect,” “project” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. These forward-looking statements are based on our current expectations and assumptions about future events and are based on currently available information as to the outcome and timing of future events. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements described under the heading “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2015 (our “2015 Form 10-K”) on file with the Securities and Exchange Commission (the “SEC”) and in “Item 1A. Risk Factors” of this Quarterly Report on Form 10-Q.

Forward-looking statements may include statements about our:

- business strategy;
- reserves;
- financial strategy, liquidity, and capital required for our development program;
- natural gas, natural gas liquids (“NGLs”), and oil prices;
- timing and amount of future production of natural gas, NGLs, and oil;
- hedging strategy and results;
- ability to meet our minimum volume commitments and to utilize or monetize our firm transportation commitments;
- future drilling plans;
- competition and government regulations;

- pending legal or environmental matters;
  
- marketing of natural gas, NGLs,  
and oil;
  
- leasehold or business acquisitions;
  
- costs of developing our properties;
  
- operations of Antero Midstream Partners LP;
  
- general economic conditions;
  
- credit markets;
  
- uncertainty regarding our future operating results; and
  
- plans, objectives, expectations, and intentions.

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We caution you that these forward-looking statements are subject to all of the risks and uncertainties, most of which are difficult to predict and many of which are beyond our control, incident to the exploration for and development, production, gathering, processing, transportation, and sale of natural gas, NGLs, and oil. These risks include, but are not limited to, commodity price volatility and continued low commodity prices, inflation, lack of availability of drilling and production equipment and services, environmental risks, drilling and other operating risks, marketing and transportation risks, regulatory changes, the uncertainty inherent in estimating natural gas, NGLs, and oil reserves and in projecting future rates of production, cash flow and access to capital, the timing of development expenditures, and the other risks described under the heading “Item 1A. Risk Factors” in our 2015 Form 10-K on file with the SEC and in “Item 1A. Risk Factors” of this Quarterly Report on Form 10-Q.

Reserve engineering is a process of estimating underground accumulations of natural gas, NGLs, and oil that cannot be measured in an exact way. The accuracy of any reserve estimate depends on the quality of available data, the interpretation of such data and price and cost assumptions made by reservoir engineers. In addition, the results of drilling, testing and production activities, or changes in commodity prices, may justify revisions of estimates that were made previously. If significant, such revisions would change the schedule of any further production and development drilling. Accordingly, reserve estimates may differ significantly from the quantities of natural gas, NGLs, and oil that are ultimately recovered.

Should one or more of the risks or uncertainties described in this report occur, or should underlying assumptions prove incorrect, our actual results and plans could differ materially from those expressed in any forward-looking statements.

All forward-looking statements, expressed or implied, included in this report are expressly qualified in their entirety by this cautionary statement. This cautionary statement should also be considered in connection with any subsequent written or oral forward-looking statements that we or persons acting on our behalf may issue.

Except as otherwise required by applicable law, we disclaim any duty to update any forward-looking statements, all of which are expressly qualified by the statements in this section, to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q.

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## PART I—FINANCIAL INFORMATION

## ANTERO RESOURCES CORPORATION

## Condensed Consolidated Balance Sheets

December 31, 2015 and March 31, 2016

(Unaudited)

(In thousands, except share amounts)

	2015	2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 23,473	39,870
Accounts receivable, net of allowance for doubtful accounts of \$1,195 in 2015 and 2016	79,404	78,753
Accrued revenue	128,242	136,446
Derivative instruments	1,009,030	975,199
Other current assets	8,087	8,072
Total current assets	1,248,236	1,238,340
Property and equipment:		
Natural gas properties, at cost (successful efforts method):		
Unproved properties	1,996,081	1,994,377
Proved properties	8,211,106	8,531,113
Water handling and treatment systems	565,616	582,331
Gathering systems and facilities	1,502,396	1,543,766
Other property and equipment	46,415	46,741
	12,321,614	12,698,328
Less accumulated depletion, depreciation, and amortization	(1,589,372)	(1,780,526)
Property and equipment, net	10,732,242	10,917,802
Derivative instruments	2,108,450	2,098,233
Other assets	26,565	34,337
Total assets	\$ 14,115,493	14,288,712
Liabilities and Equity		
Current liabilities:		
Accounts payable	\$ 364,160	250,797
Accrued liabilities	194,076	241,676
Revenue distributions payable	129,949	132,918
Other current liabilities	19,085	19,693
Total current liabilities	707,270	645,084
Long-term liabilities:		

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Long-term debt	4,668,782	4,702,809
Deferred income tax liability	1,370,686	1,439,825
Derivative instruments	—	375
Other liabilities	82,077	80,275
Total liabilities	6,828,815	6,868,368
Commitments and contingencies (notes 9 and 13)		
Equity:		
Stockholders' equity:		
Preferred stock, \$0.01 par value; authorized - 50,000,000 shares; none issued	—	—
Common stock, \$0.01 par value; authorized - 1,000,000,000 shares; issued and outstanding 277,035,558 shares and 277,061,336 shares, respectively	2,770	2,771
Additional paid-in capital	4,122,811	4,251,755
Accumulated earnings	1,808,811	1,803,756
Total stockholders' equity	5,934,392	6,058,282
Noncontrolling interest in consolidated subsidiary	1,352,286	1,362,062
Total equity	7,286,678	7,420,344
Total liabilities and equity	\$ 14,115,493	14,288,712

See accompanying notes to condensed consolidated financial statements.

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## ANTERO RESOURCES CORPORATION

## Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)

Three Months Ended March 31, 2015 and 2016

(Unaudited)

(In thousands, except share and per share amounts)

	2015	2016
Revenue:		
Natural gas sales	\$ 314,942	254,776
Natural gas liquids sales	78,786	73,065
Oil sales	12,457	10,179
Gathering, compression, and water handling	6,168	3,844
Marketing	57,780	99,216
Commodity derivative fair value gains	759,554	279,924
Total revenue	1,229,687	721,004
Operating expenses:		
Lease operating	8,102	11,293
Gathering, compression, processing, and transportation	163,662	208,738
Production and ad valorem taxes	24,218	19,284
Marketing	73,349	137,933
Exploration	1,371	1,014
Impairment of unproved properties	8,577	15,526
Depletion, depreciation, and amortization	182,300	191,582
Accretion of asset retirement obligations	400	598
General and administrative (including equity-based compensation expense of \$27,783 and \$23,470 in 2015 and 2016, respectively)	59,049	56,287
Contract termination and rig stacking	8,965	—
Total operating expenses	529,993	642,255
Operating income	699,694	78,749
Other expenses:		
Interest	(53,185)	(63,284)
Income before income taxes	646,509	15,465
Provision for income tax expense	(247,338)	(4,815)
Net income and comprehensive income including noncontrolling interest	399,171	10,650
Net income and comprehensive income attributable to noncontrolling interest	4,740	15,705
Net income (loss) and comprehensive income (loss) attributable to Antero Resources Corporation	\$ 394,431	(5,055)
Earnings (loss) per common share	\$ 1.49	(0.02)
Earnings (loss) per common share—assuming dilution	\$ 1.49	(0.02)
Weighted average number of shares outstanding:		

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Basic	265,294,794	277,050,344
Diluted	265,300,080	277,050,344

See accompanying notes to condensed consolidated financial statements.

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## ANTERO RESOURCES CORPORATION

## Condensed Consolidated Statements of Equity

Three Months Ended March 31, 2016

(Unaudited)

(In thousands)

	Common Stock Shares	Stock Amount	Additional paid- in capital	Accumulated earnings	Noncontrolling interest	Total equity
Balances, December 31, 2015	277,036	2,770	4,122,811	1,808,811	1,352,286	7,286,678
Issuance of common stock upon vesting of equity-based compensation awards, net of shares withheld for income tax withholdings	25	1	(118)	—	—	(117)
Sale of common units of Antero Midstream Partners LP held by Antero Resources Corporation	—	—	107,257	—	6,419	113,676
Equity-based compensation	—	—	21,805	—	1,665	23,470
Net income (loss) and comprehensive income (loss)	—	—	—	(5,055)	15,705	10,650
Distributions to noncontrolling interests	—	—	—	—	(14,013)	(14,013)
Balances, March 31, 2016	277,061	2,771	4,251,755	1,803,756	1,362,062	7,420,344

See accompanying notes to condensed consolidated financial statements.

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## ANTERO RESOURCES CORPORATION

## Condensed Consolidated Statements of Cash Flows

Three Months Ended March 31, 2015 and 2016

(Unaudited)

(In thousands)

	2015	2016
Cash flows from operating activities:		
Net income including noncontrolling interest	399,171	10,650
Adjustment to reconcile net income to net cash provided by operating activities:		
Depletion, depreciation, amortization, and accretion	182,700	192,180
Impairment of unproved properties	8,577	15,526
Derivative fair value gains	(759,554)	(279,924)
Gains on settled derivatives	184,840	324,347
Deferred income tax expense	247,338	4,815
Equity-based compensation expense	27,783	23,470
Other	1,602	274
Changes in current assets and liabilities:		
Accounts receivable	(42,207)	651
Accrued revenue	25,654	(8,204)
Other current assets	1,607	15
Accounts payable	(513)	5,643
Accrued liabilities	72,634	47,785
Revenue distributions payable	1,103	2,969
Other current liabilities	705	(29)
Net cash provided by operating activities	351,440	340,168
Cash flows used in investing activities:		
Additions to unproved properties	(51,541)	(28,675)
Drilling and completion costs	(569,068)	(395,185)
Additions to water handling and treatment systems	(22,126)	(37,036)
Additions to gathering systems and facilities	(125,988)	(48,686)
Additions to other property and equipment	(2,103)	(541)
Change in other assets	(8,410)	(9,172)
Proceeds from asset sales	40,000	—
Net cash used in investing activities	(739,236)	(519,295)
Cash flows from financing activities:		
Issuance of common stock	537,875	—
Proceeds from sale of common units of Antero Midstream Partners LP held by Antero Resources Corporation	—	178,000
Issuance of senior notes	750,000	—
Borrowings (repayments) on bank credit facilities, net	(940,000)	33,000
Payments of deferred financing costs	(15,022)	(64)
Distributions to noncontrolling interest in consolidated subsidiary	(4,338)	(14,013)
Employee tax withholding for settlement of equity compensation awards	(46)	(117)

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Other	(1,161)	(1,282)
Net cash provided by financing activities	327,308	195,524
Net increase (decrease) in cash and cash equivalents	(60,488)	16,397
Cash and cash equivalents, beginning of period	245,979	23,473
Cash and cash equivalents, end of period	185,491	39,870
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	14,563	14,350
Supplemental disclosure of noncash investing activities:		
Decrease in accounts payable and accrued liabilities for additions to property and equipment	(184,753)	(119,191)

See accompanying notes to condensed consolidated financial statements.

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ANTERO RESOURCES CORPORATION

Notes to Condensed Consolidated Financial Statements

December 31, 2015 and March 31, 2016

(1) Organization

(a) Business and Organization

Antero Resources Corporation (individually referred to as “Antero”) and its consolidated subsidiaries (collectively referred to as the “Company”) are engaged in the exploration, development, and acquisition of natural gas, NGLs, and oil properties in the Appalachian Basin in West Virginia, Ohio, and Pennsylvania. The Company targets large, repeatable resource plays where horizontal drilling and advanced fracture stimulation technologies provide the means to economically develop and produce natural gas, NGLs, and oil from unconventional formations. Through its consolidated subsidiary, Antero Midstream Partners LP, a publicly-traded limited partnership (“Antero Midstream”), the Company has water handling and treatment operations and gathering and compression operations in the Appalachian Basin. The Company’s corporate headquarters are located in Denver, Colorado.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

These condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the SEC applicable to interim financial information and should be read in the context of the December 31, 2015 consolidated financial statements and notes thereto for a more complete understanding of the Company’s operations, financial position, and accounting policies. The December 31, 2015 consolidated financial statements have been filed with the SEC in the Company’s 2015 Form 10-K.

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information, and, accordingly, do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments (consisting of normal and recurring accruals) considered necessary to present fairly the Company’s financial position as of March 31, 2016, the results of its operations for the three months ended March 31, 2015 and 2016, and its cash flows for the three months ended March 31, 2015 and 2016. The Company has no items of other comprehensive income or loss; therefore, its net income or loss is identical

to its comprehensive income or loss. Operating results for the period ended March 31, 2016 are not necessarily indicative of the results that may be expected for the full year because of the impact of fluctuations in prices received for natural gas, NGLs, and oil, natural production declines, the uncertainty of exploration and development drilling results, the fair value of derivative instruments, and other factors.

The Company's exploration and production activities are accounted for under the successful efforts method.

As of the date these financial statements were filed with the SEC, the Company completed its evaluation of potential subsequent events for disclosure and no items requiring disclosure were identified.

(b)Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of Antero Resources Corporation, its wholly-owned subsidiaries, any entities in which the Company owns a controlling interest, and variable interest entities in which the Company is the primary beneficiary. The Company consolidates Antero Midstream as it determined that it is the primary beneficiary based on its significant ownership interest in Antero Midstream, the significance of the Company's activities to Antero Midstream, and its influence over Antero Midstream through the presence of Company executives on the board of directors of Antero Midstream's general partner. All significant intercompany accounts and transactions have been eliminated in the Company's consolidated financial statements. Noncontrolling interest in the Company's consolidated financial statements represents the interests in Antero Midstream which are owned by third-party individuals or entities, or Antero Midstream's general partner. An affiliate of the Company owns the general partner interest in Antero Midstream. Noncontrolling interest is included as a component of equity in the Company's consolidated balance sheets.

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ANTERO RESOURCES CORPORATION

Notes to Condensed Consolidated Financial Statements

December 31, 2015 and March 31, 2016

(c)Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Changes in facts and circumstances or discovery of new information may result in revised estimates, and actual results could differ from those estimates.

The Company's condensed consolidated financial statements are based on a number of significant estimates including estimates of natural gas, NGLs, and oil reserve quantities, which are the basis for the calculation of depletion and impairment of oil and gas properties. Reserve estimates by their nature are inherently imprecise. Other items in the Company's consolidated financial statements which involve the use of significant estimates include derivative assets and liabilities, accrued revenue, deferred income taxes, equity-based compensation, asset retirement obligations, depreciation, amortization, and commitments and contingencies.

(d)Risks and Uncertainties

Historically, the markets for natural gas, NGLs, and oil have experienced significant price fluctuations. Price fluctuations can result from variations in weather, levels of production in the region, availability of transportation capacity to other regions of the country, and various other factors. Increases or decreases in the prices the Company receives for its production could have a significant impact on the Company's future results of operations and reserve quantities.

(e)Cash and Cash Equivalents

The Company considers all liquid investments purchased with an initial maturity of three months or less to be cash equivalents. The carrying value of cash and cash equivalents approximates fair value due to the short-term nature of these instruments.

(f) Derivative Financial Instruments

In order to manage its exposure to natural gas, NGLs, and oil price volatility, the Company enters into derivative transactions from time to time, including commodity swap agreements, basis swap agreements, collar agreements, and other similar agreements relating to the price risk associated with a portion of its production. To the extent legal right of offset exists with a counterparty, the Company reports derivative assets and liabilities on a net basis. The Company has exposure to credit risk to the extent that the counterparty is unable to satisfy its settlement obligations. The fair value of the Company's commodity derivative contracts of approximately \$3.1 billion at March 31, 2016 includes the following values by bank counterparty: Morgan Stanley - \$707 million; Barclays - \$600 million; JP Morgan - \$586 million; Citigroup - \$321 million; Wells Fargo - \$273 million; Scotiabank - \$215 million; BNP Paribas - \$160 million; Toronto Dominion - \$77 million; Canadian Imperial Bank of Commerce - \$39 million; Fifth Third - \$35 million; Bank of Montreal - \$31 million; SunTrust - \$19 million; Capital One - \$9 million; and Natixis - \$1 million. The credit ratings of certain of these banks were downgraded in recent years because of the sovereign debt crisis in Europe. The Company actively monitors the creditworthiness of counterparties and assesses the impact, if any, on its derivative position.

The Company records derivative instruments on the consolidated balance sheets as either an asset or liability measured at fair value and records changes in the fair value of derivatives in current earnings as they occur. Changes in the fair value of commodity derivatives are classified as revenues on the Company's condensed consolidated statements of operations. The Company's derivatives have not been designated as hedges for accounting purposes.

(g) Income Taxes

The Company recognizes deferred tax assets and liabilities for temporary differences resulting from net operating loss carryforwards for income tax purposes and the differences between the financial statement and tax basis of assets and liabilities. The effect of changes in the tax laws or tax rates is recognized in income in the period such changes are enacted.

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ANTERO RESOURCES CORPORATION

Notes to Condensed Consolidated Financial Statements

December 31, 2015 and March 31, 2016

Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion, or all, of the deferred tax assets will not be realized.

Unrecognized tax benefits represent potential future tax obligations for uncertain tax positions taken on previously filed tax returns that may not ultimately be sustained. The Company recognizes interest expense related to unrecognized tax benefits in interest expense and fines and penalties for tax-related matters as income tax expense.

(h) Fair Value Measurements

Financial Accounting Standards Board (“FASB”) Accounting Standards Codification Topic 820, Fair Value Measurements and Disclosures, clarifies the definition of fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This guidance also relates to all nonfinancial assets and liabilities that are not recognized or disclosed on a recurring basis (e.g., those measured at fair value in a business combination, the initial recognition of asset retirement obligations, and impairments of proved oil and gas properties, and other long-lived assets). Fair value is the price that the Company estimates would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy is used to prioritize inputs to valuation techniques used to estimate fair value. An asset or liability subject to the fair value requirements is categorized within the hierarchy based on the lowest level of input that is significant to the fair value measurement. The Company’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. The highest priority (Level 1) is given to unadjusted, quoted market prices in active markets for identical assets or liabilities, and the lowest priority (Level 3) is given to unobservable inputs. Level 2 inputs are data, other than quoted prices included within Level 1, which are observable for the asset or liability, either directly or indirectly. Instruments which are valued using Level 2 inputs include non-exchange traded derivatives such as over-the-counter commodity price swaps and basis swaps. Valuation models used to measure fair value of these instruments consider various Level 2 inputs including (i) quoted forward prices for commodities, (ii) time value, (iii) quoted forward interest rates, (iv) current market prices and contractual prices for the underlying instruments, (v) risk of nonperformance by the Company and the counterparty, and (vi) other relevant economic measures.

(i) Industry Segments and Geographic Information

Management has evaluated how the Company is organized and managed and has identified the following segments: (1) the exploration and production of natural gas, NGLs, and oil; (2) gathering and compression; (3) water handling

and treatment; and (4) marketing of excess firm transportation capacity.

All of the Company's assets are located in the United States and substantially all of its production revenues are attributable to customers located in the United States.

(j)Marketing Revenues and Expenses

Marketing revenues and expenses represent activities undertaken by the Company to purchase and sell third-party natural gas and NGLs and to market its excess firm transportation capacity in order to utilize this excess capacity. Marketing revenues include sales of purchased third-party gas and NGLs, as well as revenues from the release of firm transportation capacity to others. Marketing expenses include the cost of purchased third-party natural gas and NGLs. The Company classifies firm transportation costs related to capacity contracted for in advance of having sufficient production and infrastructure to fully utilize the capacity (excess capacity) as marketing expenses since it is marketing this excess capacity to third parties. Firm transportation for which the Company has sufficient production capacity (even though it may not use the transportation capacity because of alternative delivery points with more favorable pricing) is considered unutilized capacity. The costs of unutilized capacity are charged to transportation expense.

(k)Earnings (Loss) per Common Share

Earnings per common share for each period is computed by dividing net income from continuing operations attributable to Antero by the basic weighted average number of shares outstanding during such period. Earnings per common share—

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## ANTERO RESOURCES CORPORATION

## Notes to Condensed Consolidated Financial Statements

December 31, 2015 and March 31, 2016

assuming dilution for each period is computed giving consideration to the potential dilution from outstanding equity awards, calculated using the treasury stock method. The Company includes performance share unit awards in the calculation of diluted weighted average shares outstanding based on the number of common shares that would be issuable if March 31, 2016 was the end of the performance period. During periods in which the Company incurs a net loss, diluted weighted average shares outstanding are equal to basic weighted average shares outstanding because the effect of all equity awards is antidilutive. The following is a reconciliation of the Company's basic weighted average shares outstanding to diluted weighted average shares outstanding during the periods presented:

	Three months ended March 31,	
	2015	2016
Basic weighted average number of shares outstanding	265,294,794	277,050,344
Add: Dilutive effect of non-vested restricted stock and restricted stock units	5,286	—
Add: Dilutive effect of outstanding stock options	—	—
Add: Dilutive effect of performance stock units	—	—
Diluted weighted average number of shares outstanding	265,300,080	277,050,344
Weighted average number of outstanding equity awards excluded from calculation of diluted earnings per common share(1):		
Non-vested restricted stock and restricted stock units	1,970,774	6,740,602
Outstanding stock options	81,021	720,206
Performance stock units	—	214,286

(1) The potential dilutive effects of these awards were excluded from the computation of earnings per common share—assuming dilution because the inclusion of these awards would have been anti-dilutive.

## (l)Adoption of New Accounting Principles

On April 7, 2015, the FASB issued Accounting Standards Update (“ASU”) No. 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that liability. The Company adopted this standard as of January 1, 2016 and has applied the standard retrospectively. As a result of adoption, the Company has classified debt issuance costs related to its senior unsecured debt from other assets to long-term debt on its consolidated balance sheet. The retrospective adjustment to the December 31, 2015 consolidated balance sheet is as follows:

As Previously	Adjustment	As Adjusted
------------------	------------	----------------

	Reported December 31, 2015	Effect	December 31, 2015
Other assets	\$ 66,296	(39,731)	26,565
Long-term debt	4,708,513	(39,731)	4,668,782

On March 30, 2016, the FASB issued ASU No. 2016-09, Stock Compensation—Improvements to Employee Share-Based Payment Accounting. This standard simplifies or clarifies several aspects of the accounting for equity-based payment awards, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Certain of these changes are required to be applied retrospectively, while other changes are required to be applied prospectively. The Company has elected to early-adopt the standard as of January 1, 2016.

As permitted by this standard, the Company has elected to account for forfeitures in compensation cost as they occur. This standard also permits an entity to withhold income taxes upon settlement of equity-classified awards at up to the maximum statutory tax rate and requires that such payments be classified as financing activities on the statement of cash flows.

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## ANTERO RESOURCES CORPORATION

## Notes to Condensed Consolidated Financial Statements

December 31, 2015 and March 31, 2016

As a result of adopting this standard, cash outflows attributable to tax withholdings on the net settlement of equity-classified awards have been reclassified from operating cash flows to financing cash flows. The retrospective adjustment to the condensed consolidated statement of cash flows for the three months ended March 31, 2015 is as follows:

	As Previously Reported Three months ended March 31, 2015	Adjustment Effect	As Adjusted Three months ended March 31, 2015
Changes in accrued liabilities	\$ 72,588	46	72,634
Employee tax withholding for settlement of equity compensation awards	—	(46)	(46)

## (3)Antero Midstream Partners LP

In 2014, the Company formed Antero Midstream to own, operate, and develop midstream assets to service Antero's production. Antero Midstream's assets consist of gathering pipelines, compressor stations, and water handling and treatment facilities, through which it provides services to Antero under long-term, fixed-fee contracts. Antero Resources Midstream Management LLC ("Midstream Management"), a wholly-owned subsidiary of Antero Resources Investment LLC ("Antero Investment"), owns the general partnership interest in Antero Midstream, which allows Midstream Management to manage the business and affairs of Antero Midstream. Midstream Management also holds the incentive distribution rights in Antero Midstream. Antero Midstream is an unrestricted subsidiary as defined by Antero's bank credit facility and, as such, Antero Midstream and its subsidiaries are not guarantors of Antero's obligations, and Antero is not a guarantor of Antero Midstream's obligations (see note 12).

On September 23, 2015, Antero contributed (i) all of the outstanding limited liability company interests of Antero Water LLC ("Antero Water") to Antero Midstream and (ii) all of the assets, contracts, rights, permits and properties owned or leased by Antero and used primarily in connection with the construction, ownership, operation, use or maintenance of Antero's advanced waste water treatment complex to be constructed in Doddridge County, West Virginia, to Antero Treatment LLC ("Antero Treatment"), a subsidiary of Antero Midstream (collectively, (i) and (ii) are referred to herein as the "Contributed Assets").

In consideration for the Contributed Assets, Antero Midstream (i) paid to Antero a cash distribution equal to \$552 million, less \$171 million of assumed debt, (ii) issued to Antero 10,988,421 common units representing limited partner interests in Antero Midstream, (iii) distributed to Antero proceeds of approximately \$241 million from a private placement of Antero Midstream common units, and (iv) has agreed to pay Antero (a) \$125 million in cash if Antero Midstream delivers 176,295,000 barrels or more of fresh water during the period between January 1, 2017 and December 31, 2019 and (b) an additional \$125 million in cash if Antero Midstream delivers 219,200,000 barrels or more of fresh water during the period between January 1, 2018 and December 31, 2020. Antero Midstream borrowed \$525 million on its bank credit facility in connection with this transaction.

On March 30, 2016, Antero sold 8,000,000 common units representing limited partnership interests in Antero Midstream for \$178 million.

Antero owned approximately 66.3% and 61.8% of the limited partner interests of Antero Midstream at December 31, 2015 and March 31, 2016, respectively.

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## (4) Long-Term Debt

Long-term debt was as follows at December 31, 2015 and March 31, 2016 (in thousands):

	2015	2016
Antero:		
Bank credit facility(a)	\$ 707,000	680,000
6.00% senior notes due 2020(c)	525,000	525,000
5.375% senior notes due 2021(d)	1,000,000	1,000,000
5.125% senior notes due 2022(e)	1,100,000	1,100,000
5.625% senior notes due 2023(f)	750,000	750,000
Net unamortized premium	6,513	6,245
Net unamortized debt issuance costs	(39,731)	(38,436)
Antero Midstream:		
Bank credit facility(b)	620,000	680,000
	\$ 4,668,782	4,702,809

## (a) Senior Secured Revolving Credit Facility

Antero has a senior secured revolving bank credit facility (the "Credit Facility") with a consortium of bank lenders. Borrowings under the Credit Facility are subject to borrowing base limitations based on the collateral value of Antero's assets and are subject to regular semiannual redeterminations. At March 31, 2016, the borrowing base was \$4.5 billion and lender commitments were \$4.0 billion. In April 2016, the borrowing base was reaffirmed at \$4.5 billion, and lender commitments remain at \$4.0 billion. The next redetermination of the borrowing base is scheduled to occur in October 2016. The maturity date of the Credit Facility is May 5, 2019.

The Credit Facility is ratably secured by mortgages on substantially all of Antero's properties and guarantees from Antero's restricted subsidiaries, as applicable. The Credit Facility contains certain covenants, including restrictions on indebtedness and dividends, and requirements with respect to working capital and interest coverage ratios. Interest is payable at a variable rate based on LIBOR or the prime rate, determined by Antero's election at the time of borrowing. Antero was in compliance with all of the financial covenants under the Credit Facility as of December 31, 2015 and March 31, 2016.

As of March 31, 2016, Antero had a total outstanding balance under the Credit Facility of \$680 million, with a weighted average interest rate of 2.38%, and outstanding letters of credit of \$702 million. As of December 31, 2015, Antero had an outstanding balance under the Credit Facility of \$707 million, with a weighted average interest rate of 2.32%, and outstanding letters of credit of \$702 million. Commitment fees on the unused portion of the Credit Facility are due quarterly at rates ranging from 0.375% to 0.50% of the unused portion based on utilization.

(b)Senior Secured Revolving Credit Facility – Antero Midstream

On November 10, 2014, Antero Midstream entered into a senior secured revolving bank credit facility (the “Midstream Facility”) with a consortium of bank lenders. At March 31, 2016, lender commitments were \$1.5 billion. The maturity date of the Midstream Facility is November 10, 2019.

The Midstream Facility is ratably secured by mortgages on substantially all of the properties of Antero Midstream and guarantees from its restricted subsidiaries, as applicable. The Midstream Facility contains certain covenants, including restrictions on indebtedness and certain distributions to owners, and requirements with respect to leverage and interest coverage ratios. Interest is payable at a variable rate based on LIBOR or the prime rate, determined by election at the time of borrowing. Antero Midstream was in compliance with all of the financial covenants under the Midstream Facility as of December 31, 2015 and March 31, 2016.

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As of March 31, 2016, Antero Midstream had an outstanding balance under the Midstream Facility of \$680 million with a weighted average interest rate of 1.94%. As of December 31, 2015, Antero Midstream had a total outstanding balance under the Midstream Facility of \$620 million with a weighted average interest rate of 1.92%. Commitment fees on the unused portion of the Midstream Facility are due quarterly at rates ranging from 0.25% to 0.375% of the unused portion based on utilization.

(c)6.00% Senior Notes Due 2020

On November 19, 2012, Antero issued \$300 million of 6.00% senior notes due December 1, 2020 (the “2020 notes”) at par. On February 4, 2013, Antero issued an additional \$225 million of the 2020 notes at 103% of par. The 2020 notes are unsecured and effectively subordinated to the Credit Facility to the extent of the value of the collateral securing the Credit Facility. The 2020 notes rank pari passu to Antero’s other outstanding senior notes. The 2020 notes are guaranteed on a full and unconditional and joint and several senior unsecured basis by Antero’s wholly-owned subsidiaries and certain of its future restricted subsidiaries. Interest on the 2020 notes is payable on June 1 and December 1 of each year. Antero may redeem all or part of the 2020 notes at any time at redemption prices ranging from 104.50% currently to 100.00% on or after December 1, 2018. If Antero undergoes a change of control, the holders of the 2020 notes will have the right to require Antero to repurchase all or a portion of the notes at a price equal to 101% of the principal amount of the 2020 notes, plus accrued interest.

(d)5.375% Senior Notes Due 2021

On November 5, 2013, Antero issued \$1 billion of 5.375% senior notes due November 21, 2021 (the “2021 notes”) at par. The 2021 notes are unsecured and effectively subordinated to the Credit Facility to the extent of the value of the collateral securing the Credit Facility. The 2021 notes rank pari passu to Antero’s other outstanding senior notes. The 2021 notes are guaranteed on a full and unconditional and joint and several senior unsecured basis by Antero’s wholly-owned subsidiaries and certain of its future restricted subsidiaries. Interest on the 2021 notes is payable on May 1 and November 1 of each year. Antero may redeem all or part of the 2021 notes at any time on or after November 1, 2016 at redemption prices ranging from 104.031% on or after November 1, 2016 to 100.00% on or after November 1, 2019. In addition, on or before November 1, 2016, Antero may redeem up to 35% of the aggregate principal amount of the 2021 notes with the net cash proceeds of certain equity offerings, if certain conditions are met, at a redemption price of 105.375% of the principal amount of the 2021 notes, plus accrued interest. At any time prior to November 1, 2016, Antero may also redeem the 2021 notes, in whole or in part, at a price equal to 100% of the principal amount of the 2021 notes plus a “make-whole” premium and accrued interest. If Antero undergoes a change of control, the holders of the 2021 notes will have the right to require Antero to repurchase all or a portion of the notes at a price equal to 101% of the principal amount of the 2021 notes, plus accrued interest.

(e)5.125% Senior Notes Due 2022

On May 6, 2014, Antero issued \$600 million of 5.125% senior notes due December 1, 2022 (the “2022 notes”) at par. On September 18, 2014, Antero issued an additional \$500 million of the 2022 notes at 100.5% of par. The 2022 notes are unsecured and effectively subordinated to the Credit Facility to the extent of the value of the collateral securing the Credit Facility. The 2022 notes rank pari passu to Antero’s other outstanding senior notes. The 2022 notes are guaranteed on a full and unconditional and joint and several senior unsecured basis by Antero’s wholly-owned subsidiaries and certain of its future restricted subsidiaries. Interest on the 2022 notes is payable on June 1 and December 1 of each year. Antero may redeem all or part of the 2022 notes at any time on or after June 1, 2017 at redemption prices ranging from 103.844% on or after June 1, 2017 to 100.00% on or after June 1, 2020. In addition, on or before June 1, 2017, Antero may redeem up to 35% of the aggregate principal amount of the 2022 notes with the net cash proceeds of certain equity offerings, if certain conditions are met, at a redemption price of 105.125% of the principal amount of the 2022 notes, plus accrued interest. At any time prior to June 1, 2017, Antero may also redeem the 2022 notes, in whole or in part, at a price equal to 100% of the principal amount of the 2022 notes plus a “make-whole” premium and accrued interest. If Antero undergoes a change of control, the holders of the 2022 notes will have the right to require Antero to repurchase all or a portion of the notes at a price equal to 101% of the principal amount of the 2022 notes, plus accrued interest.

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(f)5.625% Senior Notes Due 2023

On March 17, 2015, Antero issued \$750 million of 5.625% senior notes due June 1, 2023 (the “2023 notes”) at par. The 2023 notes are unsecured and effectively subordinated to the Credit Facility to the extent of the value of the collateral securing the Credit Facility. The 2023 notes rank pari passu to Antero’s other outstanding senior notes. The 2023 notes are guaranteed on a full and unconditional and joint and several senior unsecured basis by Antero’s wholly-owned subsidiaries and certain of its future restricted subsidiaries. Interest on the 2023 notes is payable on June 1 and December 1 of each year. Antero may redeem all or part of the 2023 notes at any time on or after June 1, 2018 at redemption prices ranging from 104.219% on or after June 1, 2018 to 100.00% on or after June 1, 2021. In addition, on or before June 1, 2018, Antero may redeem up to 35% of the aggregate principal amount of the 2023 notes with the net cash proceeds of certain equity offerings, if certain conditions are met, at a redemption price of 105.625% of the principal amount of the 2023 notes, plus accrued interest. At any time prior to June 1, 2018, Antero may also redeem the 2023 notes, in whole or in part, at a price equal to 100% of the principal amount of the 2023 notes plus a “make-whole” premium and accrued interest. If Antero undergoes a change of control prior to June 1, 2016, it may redeem all, but not less than all, of the 2023 notes at a redemption price equal to 110% of the principal amount of the 2023 notes. If Antero undergoes a change of control, the holders of the 2023 notes will have the right to require Antero to repurchase all or a portion of the notes at a price equal to 101% of the principal amount of the 2023 notes, plus accrued interest.

(g)Treasury Management Facility

Antero has a stand-alone revolving note with a lender under the Credit Facility which provides for up to \$25 million of cash management obligations in order to facilitate Antero’s daily treasury management. Borrowings under the revolving note are secured by the collateral for the Credit Facility. Borrowings under the facility bear interest at the lender’s prime rate plus 1.0%. The note matures on May 1, 2016. At December 31, 2015 and March 31, 2016, there were no outstanding borrowings under this facility.

(5)Asset Retirement Obligations

The following is a reconciliation of the Company’s asset retirement obligations for the three months ended March 31, 2016 (in thousands).

Asset retirement obligations—December 31, 2015	\$ 30,612
Obligations incurred for wells drilled	1,720
Accretion expense	598
Asset retirement obligations—March 31, 2016	\$ 32,930

Asset retirement obligations are included in other liabilities on the condensed consolidated balance sheets.

#### (6)Equity-Based Compensation

Antero is authorized to grant up to 16,906,500 shares of common stock to employees and directors of the Company under the Antero Resources Corporation Long-Term Incentive Plan (the “Plan”). The Plan allows equity-based compensation awards to be granted in a variety of forms, including stock options, stock appreciation rights, restricted stock awards, restricted stock unit awards, dividend equivalent awards, and other types of awards. The terms and conditions of the awards granted are established by the Compensation Committee of Antero’s Board of Directors. A total of 8,614,973 shares were available for future grant under the Plan as of March 31, 2016.

In connection with the Antero Midstream initial public offering (“IPO”), Antero Midstream’s general partner adopted the Antero Midstream Partners LP Long-Term Incentive Plan (the “Midstream Plan”), pursuant to which non-employee directors of Antero Midstream’s general partner and certain officers, employees, and consultants of Antero Midstream’s general partner and its affiliates (which include Antero) are eligible to receive awards representing ownership interests in Antero Midstream. An aggregate of 10,000,000 common units may be delivered pursuant to awards under the Midstream Plan, subject to customary adjustments. A total of 7,953,111 common units are available for future grant under the Midstream Plan as of March 31, 2016.

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## ANTERO RESOURCES CORPORATION

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The Company's equity-based compensation expense was as follows for the three months ended March 31, 2015 and 2016 (in thousands):

	Three months ended	
	March 31,	
	2015	2016
Profits interests awards	\$ 14,718	—
Restricted stock unit awards	8,436	17,467
Performance share unit awards	—	883
Stock options	129	660
Antero Midstream phantom and restricted unit awards	4,425	3,988
Equity awards issued to directors	75	472
Total expense	\$ 27,783	23,470

## Profits Interests Awards

In connection with its formation in October 2009, Antero Resources LLC issued profits interests to Antero Resources Employee Holdings LLC ("Employee Holdings"), which is owned solely by certain of the Company's officers and employees. These profits interests provided for the participation in distributions upon liquidation events meeting certain requisite financial return thresholds. In turn, Employee Holdings issued membership interests to certain of the Company's officers and employees. The Employee Holdings interests in Antero Resources LLC were exchanged for similar interests in Antero Investment in connection with the Company's initial public offering on October 16, 2013.

The limited liability company agreement of Antero Investment provided a mechanism that determines how the shares of the Company's common stock held by Antero Investment would be allocated among its members, including Employee Holdings. As a result of the adoption of the Antero Investment Limited Liability Company Agreement, the satisfaction of all performance and service conditions relative to the profits interest awards held by Employee Holdings in Antero Investment became probable. Accordingly, the Company recognized approximately \$486 million of equity-based compensation expense for the vested profits interests from the fourth quarter of 2013 through the fourth quarter of 2015. The profits interest awards were fully vested as of December 31, 2015. Because consideration for the profits interest awards was deemed given by Antero Investment, the charge to equity-based compensation expense was accounted for as a capital contribution by Antero Investment to the Company and credited to additional paid-in capital. All available profits interest awards were made prior to the date of the Company's IPO, and no additional profits interest awards have been made since the Company's IPO.

## Restricted Stock and Restricted Stock Unit Awards

Restricted stock and restricted stock unit awards vest subject to the satisfaction of service requirements. Expense related to each restricted stock and restricted stock unit award is recognized on a straight-line basis over the requisite service period of the entire award. Forfeitures are accounted for as they occur through reversal of expense on awards that were forfeited during the period. The grant date fair values of these awards are determined based on the closing price of the Company's common stock on the date of the grant. A summary of restricted stock and restricted stock unit awards activity during the three months ended March 31, 2016 is as follows:

	Number of shares	Weighted average grant date fair value	Aggregate intrinsic value (in thousands)
Total awarded and unvested—December 31, 2015	6,529,459	\$ 33.48	\$ 142,342
Granted	386,394	\$ 27.52	
Vested	(13,956)	\$ 39.80	
Forfeited	(9,434)	\$ 28.24	
Total awarded and unvested—March 31, 2016	6,892,463	\$ 33.14	\$ 171,416

Intrinsic values are based on the closing price of the Company's stock on the referenced dates. Unamortized expense of \$170.5 million at March 31, 2016 is expected to be recognized over a weighted average period of approximately 2.5 years.

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## Stock Options

Stock options granted under the Plan vest over periods from one to four years and have a maximum contractual life of 10 years. Expense related to stock options is recognized on a straight-line basis over the requisite service period of the entire award. Forfeitures are accounted for as they occur through reversal of expense on awards that were forfeited during the period. Stock options are granted with an exercise price equal to or greater than the market price of the Company's common stock on the date of grant. A summary of stock option activity for the three months ended March 31, 2016 is as follows:

	Stock options	Weighted average exercise price	Weighted average remaining contractual life	Intrinsic value (in thousands)
Outstanding at December 31, 2015	720,887	\$ 50.44	9.14	\$ —
Granted	—	\$ —		
Exercised	—	—		
Forfeited	(1,000)	\$ 50.00		
Expired	—	—		
Outstanding at March 31, 2016	719,887	\$ 50.44	8.89	\$ —
Vested or expected to vest as of March 31, 2016	719,887	\$ 50.44	8.89	\$ —
Exercisable at March 31, 2016	51,021	\$ 53.79	7.75	\$ —

Intrinsic value is based on the exercise price of the options and the closing price of the Company's stock on the referenced dates.

A Black-Scholes option-pricing model was used to determine the grant-date fair value of the Company's stock options. Expected volatility was derived from the volatility of the historical stock prices of a peer group of similar publicly traded companies' stock prices. The risk-free interest rate was determined using the implied yield available for zero-coupon U.S. government issues with a remaining term approximating the expected life of the options. A dividend yield of zero was assumed.

The following table presents information regarding the weighted average fair value for options granted in 2015 and the assumptions used to determine fair value.

	Year ended December 31, 2015	
Dividend yield	—	%
Volatility	40	%
Risk-free interest rate	1.66	%
Expected life (years)	6.25	
Weighted average fair value of options granted	\$ 14.74	

As of March 31, 2016, there was \$7.6 million of unrecognized equity-based compensation expense related to nonvested stock options. That expense is expected to be recognized over a weighted average period of approximately 2.9 years.

#### Performance Share Unit Awards

In the first quarter of 2016, the Company granted performance share unit awards (“PSUs”) to certain of its executive officers. PSUs vest conditioned on the closing price of the Company’s common stock achieving specific thresholds over 10-day periods, subject to the following vesting restrictions: no PSUs may vest before the first anniversary of the grant date; no more than one-third of the PSUs may vest before the second anniversary of the grant date; and no more than two-thirds of the PSUs may vest before the third anniversary of the grant date. Any PSUs which have not vested by the fifth anniversary of the grant date will

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expire. Expense related to PSUs is recognized on a graded basis over three years. A summary of PSU activity for the three months ended March 31, 2016 is as follows:

	Number of units	Weighted average grant date fair value
Total awarded and unvested—December 31, 2015	—	\$ —
Granted	375,000	\$ 26.22
Vested	—	\$ —
Forfeited	—	\$ —
Total awarded and unvested—March 31, 2016	375,000	\$ 26.22

The grant-date fair value of PSUs was determined using a Monte Carlo simulation, which uses a probabilistic approach for estimating the fair value of the awards. Expected volatility was derived from the volatility of the historical stock prices of a peer group of similar publicly-traded companies' stock prices. The risk-free interest rate was determined using the yield available for zero-coupon U.S. government issues with a remaining term of five years. A dividend yield of zero was assumed.

The following table presents information regarding the weighted average fair value for PSUs granted during the three months ended March 31, 2016 and the assumptions used to determine fair value.

	Three months ended March 31, 2016
Dividend yield	— %
Volatility	46 %
Risk-free interest rate	1.16 %
Weighted average fair value of awards granted	\$ 26.22

As of March 31, 2016, there was \$8.9 million of unrecognized equity-based compensation expense related to unvested PSUs. That expense is expected to be recognized over a weighted average period of approximately 1.9 years.

## Antero Midstream Partners Phantom and Restricted Unit Awards

Restricted units and phantom units granted by Antero Midstream vest subject to the satisfaction of service requirements, upon the completion of which common units in Antero Midstream are delivered to the holder of the restricted units or phantom units. These restricted and phantom units are treated, for accounting purposes, as if Antero Midstream distributed the units to Antero. Antero recognizes compensation expense as the units are granted to employees, and a portion of the expense is allocated to Antero Midstream. Expense related to each restricted unit and phantom unit award is recognized on a straight-line basis over the requisite service period of the entire award. Forfeitures are accounted for as they occur through reversal of expense on awards that were forfeited during the period. The grant date fair values of these awards are determined based on the closing price of Antero Midstream's common units on the date of grant. A summary of restricted unit and phantom unit awards activity during the three months ended March 31, 2016 is as follows:

	Number of units	Weighted average grant date fair value	Aggregate intrinsic value (in thousands)
Total awarded and unvested—December 31, 2015	1,667,832	\$ 28.97	\$ 38,060
Granted	—	\$ —	
Vested	—	\$ —	
Forfeited	(11,820)	\$ 29.00	
Total awarded and unvested—March 31, 2016	1,656,012	\$ 28.97	\$ 36,614

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Intrinsic values are based on the closing price of Antero Midstream's common units on the referenced dates. Unamortized expense of \$41.8 million at March 31, 2016 is expected to be recognized over a weighted average period of approximately 2.6 years.

(7)Financial Instruments

The carrying values of accounts receivable and accounts payable at December 31, 2015 and March 31, 2016 approximated market value because of their short-term nature. The carrying values of the amounts outstanding under the Credit Facility and Midstream Facility at December 31, 2015 and March 31, 2016 approximated fair value because the variable interest rates are reflective of current market conditions.

Based on Level 2 market data inputs, the fair value of the Company's senior notes was approximately \$2.6 billion at December 31, 2015 and \$3.1 billion at March 31, 2016.

See note 8 for information regarding the fair value of derivative financial instruments.

(8)Derivative Instruments

(a)Commodity Derivatives

The Company periodically enters into natural gas, NGLs, and oil derivative contracts with counterparties to hedge the price risk associated with its production. These derivatives are not held for trading purposes. To the extent that changes occur in the market prices of natural gas, NGLs, and oil, the Company is exposed to market risk on these open contracts. This market risk exposure is generally offset by the change in market prices of natural gas, NGLs, and oil recognized upon the ultimate sale of the Company's production.

During the three months ended March 31, 2015 and 2016, the Company was party to various natural gas, NGLs, and oil fixed price swap contracts. When actual commodity prices exceed the fixed price provided by the swap contracts, the Company pays the excess to the counterparty. When actual commodity prices are below the contractually provided fixed price, the Company receives the difference from the counterparty. In addition, the Company has entered into basis swap contracts in order to hedge the difference between the New York Mercantile Exchange (“NYMEX”) index price and a local index price. The Company’s derivative swap contracts have not been designated as hedges for accounting purposes; therefore, all gains and losses are recognized in the Company’s statements of operations.

As of March 31, 2016, the Company’s fixed price natural gas and NGLs swap positions from April 1, 2016 through December 31, 2022 were as follows (abbreviations in the table refer to the index to which the swap position is tied, as

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follows: TCO=Columbia Gas Transmission; NYMEX=Henry Hub; CGTLA=Columbia Gas Louisiana Onshore; CCG=Chicago City Gate; Mont Belvieu-TET=Mont Belvieu Propane):

	Natural gas MMbtu/day	Propane Bbls/day	Weighted average index price
Three months ending June 30, 2016:			
TCO (\$/MMBtu)	60,000	—	\$ 4.77
Dominion South (\$/MMBtu)	272,500	—	\$ 5.17
NYMEX (\$/MMBtu)	1,110,000	—	\$ 3.38
CGTLA (\$/MMBtu)	170,000	—	\$ 3.94
Mont Belvieu-TET (\$/Gallon)	—	30,000	\$ 0.57
Total	1,612,500	30,000	
Three months ending September 30, 2016:			
TCO (\$/MMBtu)	60,000	—	\$ 4.81
Dominion South (\$/MMBtu)	272,500	—	\$ 5.24
NYMEX (\$/MMBtu)	1,110,000	—	\$ 3.44
CGTLA (\$/MMBtu)	170,000	—	\$ 4.03
Mont Belvieu-TET (\$/Gallon)	—	30,000	\$ 0.58
Total	1,612,500	30,000	
Three months ending December 31, 2016:			
TCO (\$/MMBtu)	60,000	—	\$ 5.01
Dominion South (\$/MMBtu)	272,500	—	\$ 5.47
NYMEX (\$/MMBtu)	1,110,000	—	\$ 3.57
CGTLA (\$/MMBtu)	170,000	—	\$ 4.20
Mont Belvieu-TET (\$/Gallon)	—	30,000	\$ 0.61
Total	1,612,500	30,000	
Year ending December 31, 2017:			
NYMEX (\$/MMBtu)	1,370,000	—	\$ 3.39
CGTLA (\$/MMBtu)	420,000	—	\$ 4.27
CCG (\$/MMBtu)	70,000	—	\$ 4.57
Mont Belvieu-TET (\$/Gallon)	—	36,500	\$ 0.43
Total	1,860,000	36,500	
Year ending December 31, 2018:			
NYMEX (\$/MMBtu)	2,002,500	—	\$ 3.91
Mont Belvieu-TET (\$/Gallon)	—	2,000	\$ 0.65
Total	2,002,500	2,000	
Year ending December 31, 2019:			
NYMEX (\$/MMBtu)	2,330,000		\$ 3.70
Year ending December 31, 2020:			
NYMEX (\$/MMBtu)	1,377,500		\$ 3.66

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Year ending December 31, 2021:		
NYMEX (\$/MMBtu)	630,000	\$ 3.36
Year ending December 31, 2022:		
NYMEX (\$/MMBtu)	120,000	\$ 3.24

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As of March 31, 2016, the Company's natural gas basis swap positions which settle on the pricing index to basis differential of TCO to the NYMEX Henry Hub natural gas price, were as follows:

	Natural gas MMbtu/day	Hedged Differential
Nine months ending December 31, 2016:	290,000	\$ (0.42)
Year ending December 31, 2017:	125,000	\$ (0.49)

As of March 31, 2016, the Company's natural gas basis swap positions which settle on the pricing index to basis differential of NYMEX Henry Hub to the TCO natural gas price, were as follows:

	Natural gas MMbtu/day	Hedged Differential
Nine months ending December 31, 2016:	170,000	\$ 0.29
Year ending December 31, 2017:	125,000	\$ 0.30

## (b)Summary

The following is a summary of the fair values of the Company's derivative instruments and where such values are recorded in the consolidated balance sheets as of December 31, 2015 and March 31, 2016. None of the Company's derivative instruments are designated as hedges for accounting purposes.

	December 31, 2015 Balance sheet location	Fair value (In thousands)	March 31, 2016 Balance sheet location	Fair value (In thousands)
Asset derivatives not designated as hedges for accounting purposes:				
Commodity contracts	Current assets	\$ 1,009,030	Current assets	\$ 975,199

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Commodity contracts	Long-term assets	2,108,450	Long-term assets	2,098,233
Total asset derivatives		3,117,480		3,073,432
Liability derivatives not designated as hedges for accounting purposes:				
Commodity contracts	Current liabilities	—	Current liabilities	—
Commodity contracts	Long-term liabilities	—	Long-term liabilities	375
Total liability derivatives		—		375
Net derivatives		\$ 3,117,480		\$ 3,073,057

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## ANTERO RESOURCES CORPORATION

## Notes to Condensed Consolidated Financial Statements

December 31, 2015 and March 31, 2016

The following table presents the gross amounts of recognized derivative assets and liabilities, the amounts offset under master netting arrangements with counterparties, and the resulting net amounts presented in the consolidated balance sheets as of the dates presented, all at fair value (in thousands):

	December 31, 2015			March 31, 2016		
	Gross amounts on balance sheet	Gross amounts offset on balance sheet	Net amounts of assets on balance sheet	Gross amounts on balance sheet	Gross amounts offset on balance sheet	Net amounts of assets on balance sheet
Commodity derivative assets	\$ 3,163,639	(46,159)	3,117,480	\$ 3,172,511	(99,079)	3,073,432
Commodity derivative liabilities	\$ —	—	—	\$ (375)	—	(375)

The following is a summary of derivative fair value gains and where such values are recorded in the condensed consolidated statements of operations for three months ended March 31, 2015 and 2016 (in thousands):

	Statement of operations location	Three months ended March 31,	
		2015	2016
Commodity derivative fair value gains	Revenue	\$ 759,554	279,924

The fair value of commodity derivative instruments was determined using Level 2 inputs.

## (9)Contingencies

The Company is the plaintiff in two nearly identical lawsuits against South Jersey Gas Company and South Jersey Resources Group, LLC (collectively “SJGC”) pending in United States District Court in Colorado. The Company filed suit against SJGC seeking relief for breach of contract and damages in the amounts that SJGC has short paid and continues to short pay, the Company in connection with two long term gas contracts. Under those contracts, SJGC are long term purchasers of some of the Company’s natural gas production. Deliveries under the contracts began in October 2011 and the delivery obligation continues through October 2019. SJGC unilaterally breached the contracts claiming that the index prices specified in the contracts, and the index prices at which SJGC paid for deliveries from 2011 through September 2014, are no longer appropriate under the contracts because a market disruption event (as

defined by the contract) has occurred and, as a result, a new index price is to be determined by the parties. Beginning in October 2014, SJGC began short paying the Company based on indexes unilaterally selected by SJGC and not the index specified in the contract. The Company contends that no market disruption event has occurred and that SJGC have breached the contracts by failing to pay the Company based on the express price terms of the contracts. Through March 31, 2016, the Company estimates that it is owed approximately \$43 million more than SJGC has paid using the indexes unilaterally selected by them.

The Company and Washington Gas Light Company and WGL Midstream, Ind. (collectively "WGL") are also involved in a pricing dispute involving contracts that the Company began delivering gas under in January 2016. The Company has invoiced WGL at the index price specified in the contract and WGL has paid the Company based on that invoice price; however, WGL maintains that the index price is no longer appropriate under the contracts and that an undefined alternative index is more appropriate for the delivery point of the gas. We expect that the matter will be submitted to arbitration. The Company believes that there is no basis for WGL's position and intends to vigorously dispute the WGL claim in arbitration and the courts.

The Company is party to various other legal proceedings and claims in the ordinary course of its business. The Company believes that certain of these matters will be covered by insurance and that the outcome of other matters will not have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.

#### (10)Contract Termination and Rig Stacking

During the three months ended March 31, 2015, the Company incurred \$9.0 million of costs for the delay or cancelation of drilling contracts with third-party contractors.

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## (11)Segment Information

See note 2(i) for a description of the Company's determination of its reportable segments. Revenues from gathering and compression and water handling and treatment operations are primarily derived from intersegment transactions for services provided to the Company's exploration and production operations. Marketing revenues are primarily derived from activities to purchase and sell third-party natural gas and NGLs and to market excess firm transportation capacity to third parties.

Operating segments are evaluated based on their contribution to consolidated results, which is determined by the respective operating income of each segment. General and administrative expenses are allocated to the gathering and compression and water handling and treatment segments based on estimates of labor and overhead expenditures on those activities. General and administrative expenses related to the marketing segment are not allocated because they are immaterial. Other income, income taxes, and interest expense are primarily managed and evaluated on a consolidated basis. Intersegment sales are transacted at prices which approximate market. Accounting policies for each segment are the same as the Company's accounting policies described in note 2 to the condensed consolidated financial statements.

The operating results and assets of the Company's reportable segments were as follows for the three months ended March 31, 2015 and 2016 (in thousands):

	Exploration and production	Gathering and compression	Water handling and treatment	Marketing	Elimination of intersegment transactions	Consolidated total
Three months ended March 31, 2015:						
Sales and revenues:						
Third-party	\$ 1,165,739	2,301	3,867	57,780	—	1,229,687
Intersegment	350	49,942	30,563	—	(80,855)	—
Total	\$ 1,166,089	52,243	34,430	57,780	(80,855)	1,229,687

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Operating expenses:						
Lease operating	\$ 7,783	—	6,752	—	(6,433)	8,102
Gathering, compression, processing, and transportation	205,679	7,988	—	—	(50,005)	163,662
Depletion, depreciation, and amortization	161,505	14,675	6,120	—	—	182,300
General and administrative expense	47,417	9,501	2,418	—	(287)	59,049
Other operating expenses	38,970	3,701	860	73,349	—	116,880
Total	461,354	35,865	16,150	73,349	(56,725)	529,993
Operating income (loss)	\$ 704,735	16,378	18,280	(15,569)	(24,130)	699,694
Segment assets	\$ 10,835,973	1,410,631	421,320	28,007	(213,980)	12,481,951
Capital expenditures for segment assets	\$ 646,842	125,988	22,126	—	(24,130)	770,826

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## ANTERO RESOURCES CORPORATION

## Notes to Condensed Consolidated Financial Statements

December 31, 2015 and March 31, 2016

	Exploration and production	Gathering and compression	Water handling and treatment	Marketing	Elimination of intersegment transactions	Consolidated total
Three months ended March 31, 2016:						
Sales and revenues:						
Third-party	\$ 617,944	3,587	257	99,216	—	721,004
Intersegment	3,825	65,804	66,182	—	(135,811)	—
Total	\$ 621,769	69,391	66,439	99,216	(135,811)	721,004
Operating expenses:						
Lease operating	\$ 11,332	—	40,714	—	(40,753)	11,293
Gathering, compression, processing, and transportation	267,445	7,170	—	—	(65,877)	208,738
Depletion, depreciation, and amortization	167,552	17,068	6,962	—	—	191,582
General and administrative expense	43,552	9,335	3,756	—	(356)	56,287
Other operating expenses	35,165	449	4,204	137,933	(3,396)	174,355
Total	525,046	34,022	55,636	137,933	(110,382)	642,255
Operating income (loss)	\$ 96,723	35,369	10,803	(38,717)	(25,429)	78,749
Segment assets	\$ 12,738,875	1,518,554	524,348	35,983	(529,048)	14,288,712
Capital expenditures for segment assets	\$ 449,830	48,686	37,036	—	(25,429)	510,123

(12)Subsidiary Guarantors

Antero's wholly-owned subsidiaries each have fully and unconditionally guaranteed Antero's senior notes. Antero Midstream and its subsidiaries have been designated unrestricted subsidiaries under the Credit Facility and the indentures governing Antero's senior notes, and do not guarantee any of Antero's obligations (see note 4). In the event a subsidiary guarantor is sold or disposed of (whether by merger, consolidation, the sale of a sufficient amount of its capital stock so that it no longer qualifies as a "Subsidiary" of the Company (as defined in the indentures governing the notes) or the sale of all or substantially all of its assets (other than by lease)) and whether or not the subsidiary guarantor is the surviving entity in such transaction to a person which is not Antero or a restricted subsidiary of Antero, such subsidiary guarantor will be released from its obligations under its subsidiary guarantee if the sale or other disposition does not violate the covenants set forth in the indentures governing the notes.

In addition, a subsidiary guarantor will be released from its obligations under the indentures and its guarantee, upon the release or discharge of the guarantee of other Indebtedness (as defined in the indentures governing the notes) that resulted in the creation of such guarantee, except a release or discharge by or as a result of payment under such guarantee; if Antero designates such subsidiary as an unrestricted subsidiary and such designation complies with the other applicable provisions of the indentures governing the notes or in connection with any covenant defeasance, legal defeasance or satisfaction and discharge of the notes.

The following Condensed Consolidating Balance Sheets at December 31, 2015 and March 31, 2016, and the related statements of operations and comprehensive income (loss) for the three months ended March 31, 2015 and 2016 and statements of cash flows for the three months ended March 31, 2015 and 2016 present financial information for Antero on a stand-alone basis (carrying its investment in wholly-owned subsidiaries using the equity method), financial information for the subsidiary guarantors, financial information for the non-guarantor subsidiaries, and the consolidation and elimination entries necessary to arrive at the information for the Company on a consolidated basis. Antero's wholly-owned subsidiaries are not restricted from making distributions to the Parent.

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## ANTERO RESOURCES CORPORATION

## Notes to Condensed Consolidated Financial Statements

December 31, 2015 and March 31, 2016

## Condensed Consolidating Balance Sheets

December 31, 2015

(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>Assets</b>					
<b>Current assets:</b>					
Cash and cash equivalents	\$ 16,590	—	6,883	—	23,473
Accounts receivable, net	76,697	—	2,707	—	79,404
Intercompany receivables	2,138	—	65,712	(67,850)	—
Accrued revenue	128,242	—	—	—	128,242
Derivative instruments	1,009,030	—	—	—	1,009,030
Other current assets	8,087	—	—	—	8,087
Total current assets	1,240,784	—	75,302	(67,850)	1,248,236
<b>Property and equipment:</b>					
<b>Natural gas properties, at cost (successful efforts method):</b>					
Unproved properties	1,996,081	—	—	—	1,996,081
Proved properties	8,243,901	—	—	(32,795)	8,211,106
Water handling and treatment systems	—	—	565,616	—	565,616
Gathering systems and facilities	16,561	—	1,485,835	—	1,502,396
Other property and equipment	46,415	—	—	—	46,415
	10,302,958	—	2,051,451	(32,795)	12,321,614
Less accumulated depletion, depreciation, and amortization	(1,431,747)	—	(157,625)	—	(1,589,372)
Property and equipment, net	8,871,211	—	1,893,826	(32,795)	10,732,242
Derivative instruments	2,108,450	—	—	—	2,108,450
Investments in subsidiaries	(302,336)	—	—	302,336	—
Contingent acquisition consideration	178,049	—	—	(178,049)	—
Other assets, net	15,661	—	10,904	—	26,565
Total assets	\$ 12,111,819	—	1,980,032	23,642	14,115,493
<b>Liabilities and Equity</b>					
<b>Current liabilities:</b>					
Accounts payable	\$ 303,197	—	60,963	—	364,160
Intercompany payable	65,712	—	2,138	(67,850)	—
Accrued liabilities	158,713	—	35,363	—	194,076
Revenue distributions payable	129,949	—	—	—	129,949
Other current liabilities	18,935	—	150	—	19,085

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Total current liabilities	676,506	—	98,614	(67,850)	707,270
Long-term liabilities:					
Long-term debt	4,048,782	—	620,000	—	4,668,782
Deferred income tax liability	1,370,686	—	—	—	1,370,686
Contingent acquisition consideration	—	—	178,049	(178,049)	—
Other liabilities	81,453	—	624	—	82,077
Total liabilities	6,177,427	—	897,287	(245,899)	6,828,815
Equity:					
Stockholders' equity:					
Partners' capital	—	—	1,082,745	(1,082,745)	—
Common stock	2,770	—	—	—	2,770
Additional paid-in capital	4,122,811	—	—	—	4,122,811
Accumulated earnings	1,808,811	—	—	—	1,808,811
Total stockholders' equity	5,934,392	—	1,082,745	(1,082,745)	5,934,392
Noncontrolling interest in consolidated subsidiary	—	—	—	1,352,286	1,352,286
Total equity	5,934,392	—	1,082,745	269,541	7,286,678
Total liabilities and equity	\$ 12,111,819	—	1,980,032	23,642	14,115,493

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## ANTERO RESOURCES CORPORATION

## Notes to Condensed Consolidated Financial Statements

December 31, 2015 and March 31, 2016

## Condensed Consolidating Balance Sheet

March 31, 2016

(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>Assets</b>					
<b>Current assets:</b>					
Cash and cash equivalents	\$ 25,392	—	14,478	—	39,870
Accounts receivable, net	77,461	—	1,292	—	78,753
Intercompany receivables	3,736	—	63,445	(67,181)	—
Accrued revenue	136,446	—	—	—	136,446
Derivative instruments	975,199	—	—	—	975,199
Other current assets	7,736	—	336	—	8,072
Total current assets	1,225,970	—	79,551	(67,181)	1,238,340
<b>Property and equipment:</b>					
Natural gas properties, at cost (successful efforts method):					
Unproved properties	1,994,377	—	—	—	1,994,377
Proved properties	8,589,337	—	—	(58,224)	8,531,113
Water handling and treatment systems	—	—	582,331	—	582,331
Gathering systems and facilities	16,561	—	1,527,205	—	1,543,766
Other property and equipment	46,741	—	—	—	46,741
	10,647,016	—	2,109,536	(58,224)	12,698,328
Less accumulated depletion, depreciation, and amortization	(1,599,078)	—	(181,448)	—	(1,780,526)
Property and equipment, net	9,047,938	—	1,928,088	(58,224)	10,917,802
Derivative instruments	2,098,233	—	—	—	2,098,233
Investments in subsidiaries	(328,376)	—	—	328,376	—
Contingent acquisition consideration	181,445	—	—	(181,445)	—
Other assets, net	14,530	—	19,807	—	34,337
Total assets	\$ 12,239,740	—	2,027,446	21,526	14,288,712
<b>Liabilities and Equity</b>					
<b>Current liabilities:</b>					
Accounts payable	\$ 193,395	—	57,402	—	250,797
Intercompany payable	63,445	—	3,736	(67,181)	—
Accrued liabilities	229,463	—	12,213	—	241,676

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Revenue distributions payable	132,918	—	—	—	132,918
Other current liabilities	19,537	—	156	—	19,693
Total current liabilities	638,758	—	73,507	(67,181)	645,084
Long-term liabilities:					
Long-term debt	4,022,809	—	680,000	—	4,702,809
Deferred income tax liability	1,439,825	—	—	—	1,439,825
Contingent acquisition consideration	—	—	181,445	(181,445)	—
Derivative instruments	375	—	—	—	375
Other liabilities	79,691	—	584	—	80,275
Total liabilities	6,181,458	—	935,536	(248,626)	6,868,368
Equity:					
Stockholders' equity:					
Partners' capital	—	—	1,091,910	(1,091,910)	—
Common stock	2,771	—	—	—	2,771
Additional paid-in capital	4,251,755	—	—	—	4,251,755
Accumulated earnings	1,803,756	—	—	—	1,803,756